

**CAVERNA INDEPENDENT SCHOOL DISTRICT**

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**BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS  
For the Year Ended June 30, 2008**



CAVERNA INDEPENDENT SCHOOL DISTRICT

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CAVERNA INDEPENDENT SCHOOL DISTRICT

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## Independent Auditor's Report

WILLIAM E. MYERS, CPA  
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Members of the Board of Education  
Caverna Independent School District  
Horse Cave-Cave City, Kentucky 42127

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Caverna Independent School District as of and for the year ended June 30, 2008, which collectively comprise the Caverna Independent School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Caverna Independent School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards; issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for the School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Caverna Independent School District as of June 30, 2008, and the respective changes in the financial position and cash flows, where applicable, there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2008 on our consideration of the Caverna Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

The Management's discussion and analysis and budgetary comparison information on pages 3 through 6 and page 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Caverna Independent School District basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements of Caverna Independent School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,

*Campbell, Myers & Ratledge, PLLC*  
Certified Public Accountants

November 6, 2008

**Caverna Independent Schools, Horse Cave and Cave City, Kentucky**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2008**

The financial position of the Caverna Board of Education remains constant and stable. The cash balance dropped 5% last year. ADA decreased from 673 in 2006-2007 to 635 in 2007-2008. Enrollment for 2008-2009 has shown an increase especially in the high school. Caverna Board of Education continues to make a concerted effort to keep our staffing in line with the state mandated figures. This remains a constant struggle for a small district, however we have been able to meet our financial goals without cutting any programs.

We continue to over all day preschool and had to add a 4<sup>th</sup> teacher for 2008-2009. While this program is not funded by the state, our aim is early intervention. It is expected that early intervention for at risk students will help cut costs in the long run and give our children a better opportunity to succeed.

All principals remained in place from last year. This continuity is essential to getting our students to perform better. All the principals are still charged with increasing test scores and creating a safe environment conducive to learning. Elementary test scores have continued to rise with the elementary exceeding goal on the CATS test this year. The high school has added classes at the Glasgow of WKU for juniors and seniors. This allows our students to get a taste of what college level work is all about and to earn credits at a reduced rate. A student can now graduate with 18 hours toward college.

We added new window air conditioners to all rooms at the middle and high schools. These replace units which were over 20 years old. We also signed a contract with Trane to service all units in the buildings. This should cut our maintenance costs in the long run. The building next to the central office was purchased allowing us to remove the old trailer and adding much needed additional space for Central office employees. The existing space was also renovated. This eliminates the need for a new central office addressed in our facilities plan.

Interfund transfers were made from the general fund to the technology fund for \$8,756.00. This amount is required to get the state matching portion of technology funds. Indirect costs were also transferred from Food Service to the General Fund for \$20,924.00. Indirect costs are the food services portion of utilities, building maintenance and other overhead.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

**Caverna Independent Schools, Horse Cave and Cave City, Kentucky**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2008**

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 7-8 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing MUNIS administrative software. The district uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: Governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. Caverna Board of Education currently has no fiduciary funds. The only proprietary fund is the food service operations. All other activities of the district are included in the governmental funds.

The governmental fund financial statements can be found on pages 9-17 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-35 of this report.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. Caverna's assets exceeded liabilities by \$3,799,843 as of June 30, 2008.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture, and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital asset is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.



**Caverna Independent Schools, Horse Cave and Cave City, Kentucky**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2008**

**Net Assets for the period ending June 30, 2008 and June 30, 2007**

Net Assets had decreased by \$11,370 over last year. Unreserved Fund Balance has decreased by \$88,103. With the addition of several new full time instructional positions, we expect this balance to drop slightly next year.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current Assets	\$ 2,410,458	\$ 2,529,049
Noncurrent Assets	<u>4,495,391</u>	<u>4,588,572</u>
Total Assets	<u>\$ 6,905,849</u>	<u>\$ 7,117,621</u>
Current Liabilities	\$ 518,224	\$ 532,598
Noncurrent Liabilities	<u>2,587,782</u>	<u>2,773,810</u>
Total Liabilities	<u>\$ 3,106,006</u>	<u>\$ 3,306,408</u>
Net Assets		
Investment in capital assets (net of Debt)	\$ 1,821,814	\$ 1,725,714
Restricted	218,804	191,653
Unreserved Fund Balance	<u>1,759,225</u>	<u>1,893,846</u>
Total Net Assets	<u>\$ 3,799,843</u>	<u>\$ 3,811,213</u>

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2008 and June 30, 2007.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:		
Local revenue sources	\$ 1,606,811	\$ 1,464,062
State revenue sources	4,781,162	4,903,130
Federal revenues	832,742	754,161
Investments	92,636	116,745
Proceeds from Bonds		
Other sources	<u>72,785</u>	<u>36,945</u>
	<u>\$ 7,386,136</u>	<u>\$ 7,275,043</u>
Expenses:		
Instruction	\$ 4,155,761	\$ 3,970,332
Student support services	241,710	239,151
Instructional support	347,899	320,604
District support	487,062	329,882
School administration	509,786	502,367
Business support	34,973	58,821
Plant operations	617,343	520,898
Student transportation	435,364	403,216
Central office support	42,990	3,277
Community support	102,611	98,708
Other	<u>432,763</u>	<u>692,033</u>
Total expenses	<u>7,408,262</u>	<u>7,139,289</u>
Expenses in excess of Rev.	<u>\$ 22,126</u>	<u>\$ (135,754)</u>

**Caverna Independent Schools, Horse Cave and Cave City, Kentucky**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2008**

**COMPARISON OF PRIOR YEAR**

Overall, 2008 was a much very similar financially to 2007. Revenues were up \$111,093 net of bond proceeds. The increase is largely in local taxes and federal revenues. State revenues decreased by \$62,420 due to decreased enrollment. Investments are up due to interest rates increasing and an increase in our cash balances.

Expenses were up \$268,973 net of facilities construction. This was due to one time expenses including the purchase of a building at \$90,000, additional Smart boards, and air conditioning at the high and middle schools.

A few notable items are Instructional is up by 10% due to On-Behalf payments for health insurance and retirement.

District Support is up 53% due to the addition of the annex at the central office. Our facilities plan called for a new central office at a cost of \$450,000, however when the house next door became available for \$90,000 we purchased it. This allowed us to remove the trailer. We also renovated the existing space with new flooring, paint and furniture. These were one time expenses and should not reoccur.

Plant operations and Transportation expenses are up due to increased energy costs.

**BUDGET COMPARISONS**

The total general fund revenues for fiscal year 2008-2007 were \$5,630,310.

General Fund budgeted revenue compared to actual revenue varied from line to line with the total ending balance \$1,451,872 or 33% higher than anticipated. This was due largely to local taxes higher than expected and interest revenue being higher than anticipated.

General funds expenses were \$505,841 less than budgeted. Some of this was budgeted contingency.

A table is attached which represents a summary of revenue and expenses for the year ending June 30, 2008. The majority of General Fund Revenue was derived from state taxes (SEEK) 53%, with local funding making up 28% of revenue. Instruction accounts for 63% of expenditures; Central Office and Administration makes up 18%; Maintenance is 11% and Transportation is 8%.

**LONG TERM DEBT**

Long-term debt payments in the amount of \$109,173 were paid during the year for Renovations to the Elementary School. Interest payments totaling \$19,590 were also made during this time. Payments will continue until 2013 for these bonds. Principal payments for the Middle School improvements bond were \$50,020 for 2007-2008. Interest on the new bond was \$51,026.

**NET ASSETS**

Current governmental capital assets for 07-08 were \$4,473,423 and \$4,563,026 for 06-07.

Current business capital assets, which is food service, totaled \$21,968 and were \$25,546 last fiscal year. All these assets are equipment and technology.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
June 30, 2008

	Governmental Activities	Business Type Activities	Total
<b>Assets:</b>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 2,177,375	\$ 3,768	\$ 2,181,143
Inventory	-	29,324	29,324
Accounts receivable			
Taxes - current	-	-	-
Taxes - delinquent	-	-	-
Accounts receivable	152,195	28,014	180,209
Intergovernmental - state	-	-	-
Intergovernmental - indirect federal	-	-	-
Prepaid expenses and other assets	19,782	-	19,782
Investments	-	-	-
Total current assets	<u>2,349,352</u>	<u>61,106</u>	<u>2,410,458</u>
<u>Noncurrent Assets:</u>			
Capital assets	8,615,061	88,156	8,703,217
Less: accumulated depreciation	<u>(4,141,638)</u>	<u>(66,188)</u>	<u>(4,207,826)</u>
Total noncurrent assets	<u>4,473,423</u>	<u>21,968</u>	<u>4,495,391</u>
Total assets	<u>6,822,775</u>	<u>83,074</u>	<u>6,905,849</u>
<b>Liabilities:</b>			
<u>Current Liabilities:</u>			
Accounts payable	37,813	11,560	49,373
Checks issued in excess of cash	79,596	-	79,596
Accrued payroll and related expenses	-	-	-
Deferred revenue	56,642	-	56,642
Current portion of bond obligations	259,000	-	259,000
Current portion of capital lease obligations	67,672	-	67,672
Current portions of accrued sick leave	-	-	-
Interest payable	<u>5,941</u>	<u>-</u>	<u>5,941</u>
Total current liabilities	<u>506,664</u>	<u>11,560</u>	<u>518,224</u>
<u>Noncurrent Liabilities:</u>			
Noncurrent portion of bond obligations	2,045,000	-	2,045,000
Noncurrent portion of capital lease obligations	315,746	-	315,746
Noncurrent portion of accrued sick leave	<u>227,036</u>	<u>-</u>	<u>227,036</u>
Total noncurrent liabilities	<u>2,587,782</u>	<u>-</u>	<u>2,587,782</u>
Total liabilities	<u>3,094,446</u>	<u>11,560</u>	<u>3,106,006</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	1,799,846	21,968	1,821,814
Restricted for:			
Capital projects	166,521	-	166,521
Debt service	4,060	-	4,060
Other purposes (nonexpendable)	48,223	-	48,223
Unrestricted	<u>1,709,679</u>	<u>49,546</u>	<u>1,759,225</u>
Total net assets	<u>\$ 3,728,329</u>	<u>\$ 71,514</u>	<u>\$ 3,799,843</u>

**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2008

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business - Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 4,155,761	\$ -	\$ 1,587,298	\$ -	\$ (2,568,463)	\$ -	\$ (2,568,463)
Support Services							
Student	241,710	-	-	-	(241,710)	-	(241,710)
Instruction staff	347,899	-	-	-	(347,899)	-	(347,899)
District administrative	487,062	-	-	-	(487,062)	-	(487,062)
School administrative	509,786	-	-	-	(509,786)	-	(509,786)
Business	34,973	-	-	-	(34,973)	-	(34,973)
Plant operations and maintenance	617,343	-	-	-	(617,343)	-	(617,343)
Student Transportation	435,364	-	-	-	(435,364)	-	(435,364)
Central office	42,990	-	-	-	(42,990)	-	(42,990)
Facilities acquisition and construction	-	-	-	-	-	-	-
Community service activities	102,611	-	-	-	(102,611)	-	(102,611)
Other	-	-	-	-	-	-	-
Interest on long-term debt	98,265	-	-	-	(98,265)	-	(98,265)
Depreciation (unallocated)	334,498	-	-	-	(334,498)	-	(334,498)
Total governmental activities	7,408,262	-	1,587,298	-	(5,820,964)	-	(5,820,964)
<b>Business-Type Activities</b>							
Food Service	537,278	92,197	453,865	-	-	8,784	8,784
Total business-type activities	537,278	92,197	453,865	-	-	8,784	8,784
Total primary government	7,945,540	92,197	2,041,163	-	(5,820,964)	8,784	(5,812,180)
General Revenues:							
Taxes:							
Property taxes					1,410,376	-	1,410,376
Motor vehicle taxes					128,542	-	128,542
Other					67,893	-	67,893
Investments earnings					92,636	1,972	94,608
State and formula grants					4,026,606	-	4,026,606
Miscellaneous					72,785	-	72,785
Total general revenues					5,798,838	1,972	5,800,810
Change in net assets					(22,126)	10,756	(11,370)
Net assets - beginning					3,750,455	60,758	3,811,213
Net assets - ending					3,728,329	71,514	3,799,843

See independent auditor's report and accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2008

	General Fund	Special Revenue	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets and resources:</b>				
Cash and cash equivalents	\$ 2,006,794	\$ -0-	\$ 170,581	\$ 2,177,375
Inventories	-	-	-	-
Accounts receivable:				
Taxes-current	-	-	-	-
Taxes-delinquent	-	-	-	-
Accounts receivable	-	-	-	-
Intergovernmental-state	-	-	-	-
Intergovernmental - indirect federal	7,777	144,418	-	152,195
Due from other funds	-	-	-	-
Prepaid expenses	-	-	-	-
Interest receivable	-	-	-	-
Investments	-	-	-	-
<b>Total assets and resources</b>	<u>\$ 2,014,571</u>	<u>\$ 144,418</u>	<u>\$ 170,581</u>	<u>\$ 2,329,570</u>
<b>Liabilities and fund balance:</b>				
Liabilities:				
Accounts payable	\$ 29,633	\$ 8,180	\$ -0-	\$ 37,813
Checks issued in excess of cash	-	79,596	-	79,596
Accrued payroll and related expenses	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-
Deferred revenues	-	56,642	-	56,642
<b>Total liabilities</b>	<u>29,633</u>	<u>144,418</u>	<u>-</u>	<u>174,051</u>
<b>Fund balances:</b>				
Reserved for:				
Inventory and fixed assets	-	-	-	-
Encumbrances	-	-	-	-
Accrued sick leave	48,223	-	-	48,223
Unreserved:				
Undesignated, reported in:				
General fund	1,936,715	-	-	1,936,715
Special revenue funds	-	-	-	-
Capital projects funds	-	-	166,521	166,521
Debt service funds	-	-	4,060	4,060
<b>Total fund balances</b>	<u>1,984,938</u>	<u>-</u>	<u>170,581</u>	<u>2,155,519</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,014,571</u>	<u>\$ 144,418</u>	<u>\$ 170,581</u>	<u>\$ 2,329,570</u>

See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2008**

Total fund balance per fund financial statements	\$ 2,155,519
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	4,473,423
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(2,900,613)</u>
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Net assets for governmental activities	<u>\$ 3,728,329</u>
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See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2008

	General Fund	Special Revenue	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ 1,281,044	\$ -0-	\$ 129,332	\$ 1,410,376
Motor vehicle	128,542	-	-	128,542
Utilities	-	-	-	-
Other	67,893	-	-	67,893
Tuition and fees	-	-	-	-
Earnings on investments	91,192	-	1,444	92,636
Other local revenues	35,033	10,982	-	46,015
Intergovernmental - intermediate	-	-	-	-
Intergovernmental-state	4,026,606	509,276	245,280	4,781,162
Intergovernmental-indirect federal	-	832,742	-	832,742
Intergovernmental-direct federal	-	-	-	-
Total revenues	<u>5,630,310</u>	<u>1,353,000</u>	<u>376,056</u>	<u>7,359,366</u>
Expenditures:				
Instruction	3,204,713	1,056,047	-	4,260,760
Support services:				
Student	201,517	40,193	-	241,710
Instructional staff	187,465	161,239	-	348,704
District administration	493,024	-	-	493,024
School administration	510,541	-	-	510,541
Business	34,973	-	-	34,973
Plant operations and maintenance	599,587	2,596	19,295	621,478
Student transportation	455,932	5,516	-	461,448
Central office	42,990	-	-	42,990
Facilities acquisition and construction	-	-	24,000	24,000
Community service activities	2,923	99,688	-	102,611
Other	-	-	338,338	338,338
Total expenditures	<u>5,733,665</u>	<u>1,365,279</u>	<u>381,633</u>	<u>7,480,577</u>
Excess (deficit) of revenues over expenditures	<u>(103,355)</u>	<u>(12,279)</u>	<u>(5,577)</u>	<u>(121,211)</u>
Other financing sources (uses):				
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of fixed assets	5,846	-	-	5,846
Operating transfers in	20,924	8,756	245,061	274,741
Operating transfers out	(24,009)	-	(229,808)	(253,817)
Total other financing sources (uses)	<u>2,761</u>	<u>8,756</u>	<u>15,253</u>	<u>26,770</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(100,594)</u>	<u>(3,523)</u>	<u>9,676</u>	<u>(94,441)</u>
Fund balance, July 1, 2007	<u>2,085,532</u>	<u>3,523</u>	<u>160,905</u>	<u>2,249,960</u>
Fund balance, June 30, 2008	<u>\$ 1,984,938</u>	<u>\$ -</u>	<u>\$ 170,581</u>	<u>\$ 2,155,519</u>

See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008**

Net changes in total fund balances per fund financial statements	\$ (94,441)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	(66,167)
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Bond proceeds	-
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	282,113
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Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(143,631)</u>
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Change in net assets of governmental activities	<u>\$ (22,126)</u>
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See independent auditor's report and  
accompanying notes to basic financial statements.



**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes:				
Property	\$ 1,125,641	\$ 1,125,641	\$ 1,281,044	\$ 155,403
Motor vehicles	98,357	98,357	128,542	30,185
Utilities	-	-	-	-
Other	-	-	67,893	67,893
Tuition and fees	-	-	-	-
Earnings on investments	16,393	16,393	91,192	74,799
Other local revenues	5,464	5,464	35,033	29,569
Intergovernmental - intermediate	-	-	-	-
Intergovernmental-state	3,081,267	3,081,267	4,026,606	945,339
Intergovernmental-indirect federal	-	-	-	-
Intergovernmental-direct federal	-	-	-	-
Total revenues	<u>4,327,122</u>	<u>4,327,122</u>	<u>5,630,310</u>	<u>1,303,188</u>
Expenditures:				
Instruction	3,122,994	3,122,994	3,204,713	(81,719)
Support services:				
Student	232,687	232,687	201,517	31,170
Instructional staff	175,137	175,137	187,465	(12,328)
District administration	1,310,875	1,310,875	493,024	817,851
School administration	486,901	486,901	510,541	(23,640)
Business	54,250	54,250	34,973	19,277
Plant operations and maintenance	516,654	516,654	599,587	(82,933)
Student transportation	474,544	474,544	455,932	18,612
Central office	-	-	42,990	(42,990)
Facilities acquisition and construction	-	-	-	-
Community service activities	3,825	3,825	2,923	902
Other	20,500	20,500	-	20,500
Total expenditures	<u>6,398,367</u>	<u>6,398,367</u>	<u>5,733,665</u>	<u>664,702</u>
Excess (deficit) of revenues over expenditures	<u>(2,071,245)</u>	<u>(2,071,245)</u>	<u>(103,355)</u>	<u>1,967,890</u>
Other financing sources (uses):				
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of fixed assets	-	-	5,846	5,846
Operating transfers in	21,630	21,630	20,924	(706)
Operating transfers out	(8,690)	(8,690)	(24,009)	(15,319)
Total other financing sources (uses)	<u>12,940</u>	<u>12,940</u>	<u>2,761</u>	<u>(10,179)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(2,058,305)</u>	<u>(2,058,305)</u>	<u>(100,594)</u>	<u>1,957,711</u>
Fund balance, July 1, 2007	<u>2,058,305</u>	<u>2,058,305</u>	<u>2,037,309</u>	<u>(20,996)</u>
Fund balance, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,936,715</u>	<u>\$ 1,936,715</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2008**

	Food Service Fund	Total
<b>Assets</b>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 3,768	\$ 3,768
Inventory	29,324	29,324
Accounts receivable	28,014	28,014
Taxes - current	-	-
Taxes - delinquent	-	-
Accounts receivable	-	-
Intergovernmental - state	-	-
Intergovernmental - indirect federal	-	-
Intergovernmental - direct federal	-	-
Interest receivable	-	-
Investments	-	-
Total current assets	<u>61,106</u>	<u>61,106</u>
Noncurrent		
Capital assets	88,156	88,156
Less: accumulated depreciation	(66,188)	(66,188)
Investments	-	-
Total noncurrent assets	<u>21,968</u>	<u>21,968</u>
Total assets	<u>83,074</u>	<u>83,074</u>
<b>Liabilities</b>		
<u>Current Liabilities</u>		
Accounts payable	11,560	11,560
Accrued payroll and related expenses	-	-
Due to other funds	-	-
Deferred revenue	-	-
Current portion of long-term obligation	-	-
Accrued sick leave	-	-
Total current liabilities	<u>11,560</u>	<u>11,560</u>
Total liabilities	<u>11,560</u>	<u>11,560</u>
<b>Net Assets</b>		
Invested in capital assets net of related debt	21,968	21,968
Unrestricted	49,546	49,546
Total net assets	<u>\$ 71,514</u>	<u>\$ 71,514</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2008**

	<u>Food Service Fund</u>	<u>Totals</u>
Operating Revenues:		
Lunchroom sales	\$ 91,810	\$ 91,810
Other operating revenues	<u>387</u>	<u>387</u>
Total operating revenues	<u>92,197</u>	<u>92,197</u>
Operating Expenses:		
Salaries and wages	267,568	267,568
Material and supplies	238,868	238,868
Depreciation	3,578	3,578
Other operating expenses	<u>6,340</u>	<u>6,340</u>
Total operating expenses	<u>516,354</u>	<u>516,354</u>
Operating loss	<u>(424,157)</u>	<u>(424,157)</u>
Non-Operating Revenues (Expenses)		
Federal grants	373,846	373,846
Donated commodities	23,569	23,569
State grants	56,450	56,450
Other income	1,972	1,972
Fund transfers	<u>(20,924)</u>	<u>(20,924)</u>
Total non-operating revenues	<u>434,913</u>	<u>434,913</u>
Net income (loss)	10,756	10,756
Net assets, July 1, 2007	<u>60,758</u>	<u>60,758</u>
Net assets, June 30, 2008	<u>\$ 71,514</u>	<u>\$ 71,514</u>

See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2008**

Cash Flows From Operating Activities:

Cash received from:

Lunchroom sales	\$ 92,197
Government grants	378,716
Other activities	1,972

Cash paid to/for

Employees	(267,568)
Supplies	(218,127)
Other activities	<u>(6,304)</u>

Net cash provided (used) by operating activities	<u>(19,114)</u>
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Cash Flows from Capital and Related Financing Activities:

Purchase of capital assets	<u>-</u>
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Cash Flows from Investing Activities:

Receipt of interest income	<u>-</u>
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Net increase in cash and cash equivalents	(19,114)
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Balances, beginning of year	<u>22,882</u>
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Balances, end of year	<u><u>\$ 3,768</u></u>
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Reconciliation of operating income (loss) to net cash provided (used) by operating activities

Net income (loss)	<u>\$ 10,756</u>
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Adjustments to reconcile operating income to net cash provided (used) by operating activities

Depreciation	3,578
Interest	<u>-</u>

Change in assets and liabilities

Inventory	(4,442)
Accounts receivable	(28,014)
Accounts payable	<u>(992)</u>

Net cash provided (used) by operating activities	<u><u>\$ (19,114)</u></u>
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Schedule of non-cash transactions:

Donated commodities received from federal government	<u>\$ 23,569</u>
On Behalf payments	<u><u>\$ 51,580</u></u>

See independent auditor's report and  
accompanying notes to basic financial statements.

CAVERNA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2008

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 96,871
Accounts receivable	<u>-</u>
Total assets	<u>\$ 96,871</u>
Liabilities	
Accounts payable	\$ 2,562
Due to student groups	<u>94,309</u>
Total liabilities	<u>96,871</u>
Net Assets Held in Trust	<u>\$ -0-</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

1. Summary of Significant Accounting Policies and Description of Funds:

Reporting Entity:

The Caverna Board of Education, a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Caverna Independent School District. The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Caverna Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Caverna Independent School District Finance Corporation - On August 30, 1989, the Caverna Board of Education resolved to authorize the establishment of the Caverna Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Caverna Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation:

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This focus is the same approach used in the preparation of the propriety fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

or program of the District's governmental activities. Direct expenses are those that are specifically associated with service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Propriety funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types:

- a. The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- b. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 42. This is a major fund of the District.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

I. Governmental Fund Types, Continued:

- c. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  - 2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- d. Debt Service Fund:  
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Funds (Enterprise Fund):

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund. The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with other contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds):

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.



**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

1. Summary of Significant Accounting Policies, Continued:

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing reports, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recognized as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in government funds.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

1. Summary of Significant Accounting Policies, Continued:

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 60 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited onto the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.603 per \$100 valuation for real property, \$.603 per \$100 valuation for business personal property and \$.627 per \$100 valuation for motor vehicles.

Capital Assets

General capital assets are those specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of the net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalized threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an assets life are not.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food services equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

1. Summary of Significant Accounting Policies, Continued:

Interfund Balances

On fund financial statements, receivable and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

**Budgetary Basis of Accounting:** The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

1. Summary of Significant Accounting Policies, Continued:

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2008 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

The private purpose trust funds record investments at their quoted market price. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. All realized gains and losses and changes in fair market value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

1. Summary of Significant Accounting Policies, Continued:

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

On-Behalf Payments

During the year ended June 30, 2008, the Kentucky Division of Finance made payments on behalf of Caverna Independent School District in amount of \$992,381. These payments were paid for fringe benefits for the District personnel. These payments have been included in both revenue and expenditures on the District's financial statements for the year ended June 30, 2008.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

2. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

3. Cash and Cash Equivalents:

At year-end, the carrying amount of the District's cash and cash equivalents was \$2,198,418. Of the total cash balance, \$243,702 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2008 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Kentucky Banking Center	<u>\$ 2,424,866</u>	<u>\$ 2,198,418</u>

Breakdown per financial statements:

Governmental funds	\$ 2,097,779
Proprietary funds	3,768
Agency funds	<u>96,871</u>
	<u>\$ 2,198,418</u>

All deposits are in financial institutions and brokerage accounts. The District's bank deposits are categorized below to give an indication of the custodial credit risk assumed by the District at June 30, 2008.

Category 1 – Insured by FDIC or collateralized with securities held by the District or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no writer or approved collateral agent.

	Category			Total Bank	Carrying
	One	Two	Three	Balance	Amount
Deposits with					
Financial institutions	<u>\$ 243,703</u>	<u>\$ 2,181,163</u>	<u>\$ -</u>	<u>\$2,424,866</u>	<u>\$ 2,198,418</u>

Interest Rate Risk

The District invests in certificates of deposits with numerous financial institutions. The District purchases and sells their investments as interest rate fluctuate in order to manage their exposure to fair value losses arising from increasing interest rates.

Currently, Certificates of Deposits maturity dates range from 30 days to 90 days with interest rates varying from 3.05% to 3.25%.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

4. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
<b><u>Governmental Activities:</u></b>				
Capital Assets, not being Depreciated:				
Land	\$ 121,636	\$ -0-	\$ -0-	\$ 121,636
Total Capital, not being Depreciated	<u>\$ 121,636</u>	<u>-0-</u>	<u>-0-</u>	<u>\$ 121,636</u>
Land and improvements	\$ 779,869	\$ -	\$ -	\$ 779,869
Buildings and improvements	6,039,987	90,000	-	6,129,987
Technology equipment	537,097	93,988	(75,174)	555,911
Vehicles	799,391	80,260	(39,226)	840,425
General equipment	186,001	4,082	(2,850)	187,233
Construction	-	-	-	-
Total at historical cost	<u>8,342,345</u>	<u>268,330</u>	<u>(117,250)</u>	<u>8,493,425</u>
Less: accumulated depreciation for:				
Land and improvements	(608,044)	(26,429)	-	(634,473)
Buildings and improvements	(2,396,352)	(153,139)	-	(2,549,491)
Technology	(258,296)	(90,653)	52,707	(296,242)
Vehicles	(488,483)	(58,723)	39,226	(507,980)
General equipment	(149,780)	(5,554)	1,882	(153,452)
Construction	-	-	-	-
Total accumulated depreciation	<u>(3,900,955)</u>	<u>(334,498)</u>	<u>93,815</u>	<u>(4,141,638)</u>
Governmental Activities Capital Assets - Net	<u>\$ 4,563,026</u>	<u>\$ (66,168)</u>	<u>\$ (23,435)</u>	<u>\$ 4,473,423</u>
Business - Type Activities:				
Food service and equipment	\$ 83,453	\$ -	\$ (1,000)	\$ 82,453
Technology equipment	5,703	-	-	5,703
Total at historical cost	<u>89,156</u>	<u>-</u>	<u>(1,000)</u>	<u>88,156</u>
Less: accumulated depreciation for:				
Food service and equipment	(59,592)	(2,436)	1,000	(61,028)
Technology equipment	(4,018)	(1,142)	-	(5,160)
Total accumulated depreciation	<u>(63,610)</u>	<u>(3,578)</u>	<u>1,000</u>	<u>(66,188)</u>
<b><u>Business-Type Activities</u></b>				
Capital Assets - Net	<u>\$ 25,546</u>	<u>\$ (3,578)</u>	<u>\$ -0-</u>	<u>\$ 21,968</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

5. Bonded Debt and Lease Obligations:

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Issue of 2000 - Energy Loan	\$ 289,000	4.75% - 5.65%
Issue of 2001 (Refunding of 1990)	\$ 445,000	3.75% - 4.00%
Issue of 2002 (Refunding of 1992)	\$ 1,170,000	1.30% - 3.50%
Issue of 2004	\$ 1,715,000	1.75% - 4.9%

The District, through the General Fund Facility Support Program (FSPK) Fund, and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

Long-term debt activities for the year ended June 30, 2008, are as follows:

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Debt Payments</u> <u>and Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amount Due</u> <u>Within One Year</u>
Series 2000	\$ 157,000	\$ -0-	\$ (23,000)	134,000	\$ 24,000
Series 2001	190,000	-	(60,000)	130,000	60,000
Series 2002	680,000	-	(105,000)	575,000	110,000
Series 2004	<u>1,530,000</u>	<u>-</u>	<u>(65,000)</u>	<u>1,465,000</u>	<u>65,000</u>
	<u>\$ 2,557,000</u>	<u>\$ -</u>	<u>\$ (253,000)</u>	<u>\$ 2,304,000</u>	<u>\$ 259,000</u>



**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

5. Bonded Debt and Lease Obligations, Continued:

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2008 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2008-09	264,000	91,841	92,752	263,089
2009-10	270,000	82,408	94,666	257,742
2010-11	212,000	73,834	42,225	243,609
2011-12	223,000	65,764	42,226	246,538
2012-13	225,000	57,120	38,620	243,500
2013-14	80,000	51,172	30,257	100,915
2014-15	85,000	47,972	30,257	102,715
2015-16	85,000	44,318	30,256	99,062
2016-17	90,000	40,722	30,256	100,466
2017-18	95,000	36,612	30,256	101,356
2018-19	100,000	32,337	30,256	102,081
2019-20	105,000	27,687	30,256	102,431
2020-21	110,000	22,805	30,257	102,548
2021-22	115,000	17,525	30,257	102,268
2022-23	120,000	12,005	30,257	101,748
2023-24	125,000	6,125	30,256	100,869
	<u>\$ 2,304,000</u>	<u>\$ 710,247</u>	<u>\$ 643,310</u>	<u>\$ 2,370,937</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

6. Capital Lease Payable:

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2008</u>
Buses	\$ 306,745

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2008:

<u>Year Ending June 30</u>	<u>Capital Lease Payable</u>
2008	\$ 82,281
2009	78,371
2010	62,938
2011	50,631
2012	42,518
Thereafter	<u>124,514</u>
Total minimum lease payments	441,253
Less: Amount representing interest	<u>(57,835)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 383,418</u></u>

7. Commitments Under Noncapitalized Leases:

Commitments under operating lease agreements for office equipment provide for minimum future rental payments as of June 30, 2008, as follows:

Year ending June 30:

2008	\$ 4,188
2009	4,188
2010	4,188
2011	<u>1,396</u>
Total Minimum Rentals	<u><u>\$13,960</u></u>

Rent expense for the year ended June 30, 2008 was \$4,188.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

8. Retirement Plans:

The Caverna Independent School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KTRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, and public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 16.17% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$4,435,116. The payroll for employees covered under KTRS was \$3,484,117 and for CERS was \$906,273. For the year ended June 30, 2008, the Commonwealth contributed \$457,992 for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2007 were \$343,360 which represents those employees covered by federal programs.

The contribution requirement for CERS for the year ended June 30, 2008, was \$191,858 which consisted of \$146,544 from the District and \$45,314 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
June 30, 2008

8. Retirement Plans, Continued:

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the Plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	CERS as of June 30, 2007	CERS as of June 30, 2006 (In Thousands)	CERS as of June 30, 2005
Assets available for benefits, at fair value	\$ 7,107,113	\$ 6,677,969	\$ 6,511,562
Pension benefit obligation	<u>8,868,182</u>	<u>8,199,712</u>	<u>7,180,923</u>
(Under funded)/over funded pension benefit obligations	<u>\$(1,761,069)</u>	<u>\$(1,521,743)</u>	<u>\$ (669,361)</u>

The following table presents the last three years of the total of all employer contributions to the Plan and the District's contributions for the year ending June 30:

**Total Plan Contributions – CERS**

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
2007	\$ 269,393,035	\$ 281,493,082	104.50%
2006	\$ 215,947,317	\$ 217,314,868	100.60%
2005	\$ 159,730,588	\$ 161,255,053	101.00%

**District's Contributions – CERS**

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
2007	\$191,858	\$191,858	100.00%
2006	\$151,437	\$151,437	100.00%
2005	\$126,903	\$126,903	100.00%
2004	\$ 96,856	\$ 98,856	100.00%

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

8. Retirement Plans, Concluded:

	KTRS as of June 30, 2007	KTRS as of June 30, 2006	KTRS as of June 30, 2005
	(In Thousands)		
Assets available for benefits, at fair value	\$ 15,285,000	\$ 14,857,600	\$ 14,598,800
Pension benefit obligation	<u>21,255,000</u>	<u>20,324,700</u>	<u>19,134,800</u>
(Under funded)/over funded pension benefit obligations	<u>\$ (5,970,000)</u>	<u>\$ (5,467,100)</u>	<u>\$ (4,536,000)</u>

**Total Plan Contributions – KTRS**

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 2007	\$ 494,600,000	\$ 420,410,000	85.00%
June 30, 2006	\$ 406,100,000	\$ 406,100,000	100.00%
June 30, 2005	\$ 383,800,000	\$ 383,800,000	100.00%

**District Contributions – KTRS**

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 2008	\$ 343,360	\$ 343,360	100.00%
June 30, 2007	\$ 335,407	\$ 335,407	100.00%
June 30, 2006	\$ 303,457	\$ 303,457	100.00%
June 30, 2005	\$ 317,211	\$ 317,211	100.00%

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2008 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED**  
**June 30, 2008**

9. Contingencies:

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantor's may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

10. Insurance and Related Activities:

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Worker's Compensation Insurance.

11. Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS, CONCLUDED**  
**June 30, 2008**

12. Deficit Operating Balances:

There are no funds of the District that currently have a deficit fund balance. The following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General	\$ (100,594)
Special	(3,523)
Construction	(22,589)
Debt Service	(492)

13. COBRA:

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

14. Transfer of Funds:

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	8,756
Operating	Food Service	General	Matching	20,924
Operating	Capital Outlay	Debt Service	Debt Service	15,298
Operating	Building	Debt Service	Debt Service	214,510
Operating	General	Debt Service	Debt Service	15,253

## SUPPLEMENTAL INFORMATION



CAVERNA INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2008

	SEEK CAPITAL OUTLAY FUND	FSPK FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Assets and resources:					
Cash and cash equivalents	\$ 127,185	\$ -0-	\$ 39,336	\$ 4,060	\$ 170,581
Inventory	-	-	-	-	-
Accounts receivable:					
Taxes-current	-	-	-	-	-
Taxes-delinquent	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Intergovernmental-State	-	-	-	-	-
Intergovernmental-Indirect Federal	-	-	-	-	-
Intergovernmental-Direct Federal	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Due from other funds	-	-	-	-	-
Interest receivable	-	-	-	-	-
Investments	-	-	-	-	-
Furniture and equipment, net	-	-	-	-	-
Total Assets and Resources	<u>\$ 127,185</u>	<u>\$ -0-</u>	<u>\$ 39,336</u>	<u>\$ 4,060</u>	<u>\$ 170,581</u>
Liabilities and fund balance:					
Liabilities:					
Accounts payable	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Accrued payroll and related expenses	-	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-	-
Deferred revenues	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Reserved for:					
Inventory and fixed assets	-	-	-	-	-
Encumbrances	-	-	-	-	-
Accrued sick leave	-	-	-	-	-
Unreserved:					
Undesignated, reported in:					
General fund	-	-	-	-	-
Special revenue funds	-	-	-	-	-
Capital projects funds	127,185	-	39,336	-	166,521
Debt service funds	-	-	-	4,060	4,060
Permanent funds	-	-	-	-	-
Total fund balances	<u>127,185</u>	<u>-</u>	<u>39,336</u>	<u>4,060</u>	<u>170,581</u>
Total Liabilities and Fund Balances	<u>\$ 127,185</u>	<u>\$ -0-</u>	<u>\$ 39,336</u>	<u>\$ 4,060</u>	<u>\$ 170,581</u>

See independent auditor's report and  
accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2008**

	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes:					
Property	\$ -0-	\$ 129,332	\$ -0-	\$ -0-	\$ 129,332
Motor vehicles	-	-	-	-	-
Utilities	-	-	-	-	-
Other	-	-	-	-	-
Tuition and fees	-	-	-	-	-
Earnings on investments	-	-	1,411	33	1,444
Other local revenues	-	-	-	-	-
Intergovernmental-Intermediate	-	-	-	-	-
Intergovernmental-State	67,350	85,178	-	92,752	245,280
Intergovernmental-Indirect Federal	-	-	-	-	-
Intergovernmental-Direct Federal	-	-	-	-	-
Total revenues	<u>67,350</u>	<u>214,510</u>	<u>1,411</u>	<u>92,785</u>	<u>376,056</u>
<b>Expenditures:</b>					
Instruction	-	-	-	-	-
Support services:					
Student	-	-	-	-	-
Instructional staff	-	-	-	-	-
District administration	-	-	-	-	-
School administration	-	-	-	-	-
Business	-	-	-	-	-
Plant operations and maintenance	19,295	-	-	-	19,295
Student transportation	-	-	-	-	-
Central office	-	-	-	-	-
Facilities and construction	-	-	24,000	-	24,000
Community service activities	-	-	-	-	-
Other	-	-	-	-	-
Total expenditures	<u>19,295</u>	<u>-</u>	<u>-</u>	<u>338,338</u>	<u>338,338</u>
Excess (deficit) of revenues over expenditures	<u>48,055</u>	<u>214,510</u>	<u>(22,589)</u>	<u>(245,553)</u>	<u>(5,577)</u>
<b>Other financing sources (uses):</b>					
Proceeds from sale of bonds	-	-	-	-	-
Proceeds from sale of fixed assets	-	-	-	-	-
Realized gains and losses and changes in market value	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	(15,298)	(214,510)	-	245,061	245,061
Total other financing sources (uses)	<u>(15,298)</u>	<u>(214,510)</u>	<u>-</u>	<u>245,061</u>	<u>(229,808)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>32,757</u>	<u>-</u>	<u>(22,589)</u>	<u>(492)</u>	<u>9,676</u>
Fund balance, July 1, 2007	<u>94,428</u>	<u>-</u>	<u>61,925</u>	<u>4,552</u>	<u>160,905</u>
Fund balance, June 30, 2008	<u>\$ 127,185</u>	<u>\$ -0-</u>	<u>\$ 39,336</u>	<u>\$ 4,060</u>	<u>\$ 170,581</u>

See Independent auditor's report and accompanying notes to basic financial statements.

CAVERNA HIGH SCHOOL ACTIVITY FUNDS  
ALL FUNDS COMBINED  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
For the Year Ended June 30, 2008

	Cash Balance July 1, 2007	(1) Receipts	(1) Disbursements	Cash Balance June 30, 2008	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2008
GENERAL	\$ 1,841	\$ 13,831	\$ 8,207	\$ 7,465	\$ -0-	\$ 751	\$ 6,714
CONCESSIONS	2,208	1,311	1,968	1,551	-	-	1,551
LOCKERS	1,864	850	670	2,044	-	-	2,044
MISCELLANEOUS	22	148	111	59	-	-	59
FACULTY AND STAFF	63	205	208	60	-	15	45
SOFTBALL CONCESSIONS	348	1,274	899	723	-	-	723
BASEBALL CONCESSIONS	392	1,066	1,100	358	-	-	358
VOLLEYBALL CONCESSIONS	-	160	160	-	-	-	-
SCHOOL CONCESSIONS	-	9,437	8,598	839	-	-	839
BASKETBALL CONCESSIONS	-	8,830	8,830	-	-	-	-
BASKETBALL CAMP	-	1,205	705	500	-	-	500
ACADEMIC TEAM	48	-	48	-	-	-	-
CLASS OF 2007	312	-	312	-	-	-	-
CLASS OF 2008	304	797	1,068	33	-	71	(38)
CLASS OF 2009	-	7,860	6,239	1,621	-	334	1,287
AP BIOLOGY	333	-	70	263	-	-	263
ANATOMY CLASS	12	-	-	12	-	-	12
ART CLUB	20	1,622	942	700	-	-	700
ART DEPARTMENT	1	291	158	134	-	-	134
ATHLETICS	9,934	68,951	59,788	19,097	-	145	18,952
BAND	72	3,014	2,758	328	-	-	328
BETA CLUB	659	1,287	1,163	783	-	-	783
CHEERLEADERS	1,092	3,479	4,443	128	-	-	128
STUDENT YMCA	104	230	312	22	-	-	22
CHEMISTRY	598	4,065	3,769	894	-	-	894
LOST BOOKS	-	7	-	7	-	-	7
FBLA	48	5,770	5,142	676	-	-	676
FCA	84	-	-	84	-	-	84
FCS	164	-	32	132	-	-	132
FFA	216	259	368	107	-	-	107
FHA (FCCLA)	710	-	154	556	-	-	556
FOREIGN LANGUAGE	1	-	-	1	-	-	1
INDUSTRIAL ARTS	1	85	78	8	-	-	8
PEP CLUB	-	356	350	6	-	-	6
STUDENT COUNCIL	-	-	-	-	-	-	-
TSA	-	3,740	3,739	1	-	-	1
SADD	-	150	-	150	-	-	150
YEARBOOK	-	5,517	684	4,833	-	-	4,833
	<u>\$ 21,451</u>	<u>\$ 145,797</u>	<u>\$ 123,073</u>	<u>\$ 44,175</u>	<u>\$ -0-</u>	<u>\$ 1,316</u>	<u>\$ 42,859</u>

(1) Included in receipts and disbursements are inter-fund transfers in the amount of \$4,978.

CAVERNA MIDDLE SCHOOL AND CAVERNA ELEMENTARY SCHOOL ACTIVITY FUNDS  
ALL FUNDS COMBINED  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
For the Year Ended June 30, 2008

	Cash Balance July 1, 2007	(1) Receipts	(1) Disbursements	Cash Balance June 30, 2008	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2008
CAVERNA MIDDLE SCHOOL	\$ 35,850	\$ 27,502	\$ 26,151	\$ 37,201	\$ -0-	\$ 846	\$ 36,355
CAVERNA ELEMENTARY	22,915	36,460	43,880	15,495	-	400	15,095
TOTALS	<u>\$ 58,765</u>	<u>\$ 63,962</u>	<u>\$ 70,031</u>	<u>\$ 52,696</u>	<u>\$ -0-</u>	<u>\$ 1,246</u>	<u>\$ 51,450</u>

(1) Included in receipts and disbursements are Inter-fund transfers in the amount of \$0.

CAVERNA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
FAMILY RESOURCE CENTER  
2007 Project  
For the Year Ended June 30, 2008

Beginning cash, July 1, 2007		\$ 5,308
Receipts:		
United Way	\$ 4,175	
Allocations/grants/funds	4,133	
Grant from state	<u>94,500</u>	
Total receipts		102,808
Disbursements:		
Salaries and benefits	66,605	
Registration fees and other dues	75	
Program supplies	7,454	
Telephone	1,412	
Postage and shipping	1,250	
Student activities	22,324	
Travel	379	
Food	1,526	
Award and grants	87	
Advertising	693	
Other	<u>1,083</u>	
Total disbursements		<u>102,888</u>
Cash balance, June 30, 2008		5,228
Less deferred revenue		<u>5,228</u>
Fund balance, June 30, 2008		<u>\$ -0-</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Agriculture:</u>			
Passed-through State Department of Education:			
School Nutrition Cluster			
National School Lunch Program	10.555	7750002 08	\$ 203,223
National School Breakfast Program	10.553	7760005 08	93,067
National School Summer Meal Program	10.559	7740023 07	49,542
Passed-through State Department of Agriculture:			
Food distribution/Commodities	10.550	7750002 08	23,569
Total Department of Agriculture			<u>\$ 369,401</u>
 <u>U.S. Department of Education:</u>			
Passed-through State Department of Education:			
Title I:			
2007 Project	84.010A	3100002-07	86,568
2008 Project	84.010A	3100002-08	314,099
Migrant - 2007	84.011A	3110002-06	42,793
Migrant - 2008	84.011A	3110002-07	-
Title V - Innovative Programs:			
2008 Project	84.298	3500002-07	1,313
Handicapped Preschool and School Programs:			
Special Education Cluster			
2007 Project-Preschool	84.173A	3800002-07	-
2008 Project-Preschool	84.173A	3800002-08	24,166
2007Project - Special Education	84.027A	3810002-07	99,356
2008Project - Special Education	84.027A	3810002-08	135,905
Safe and Drug Free Schools:			
2007 Project	84.186	3410002-07	1,689
2008 Project	84.186	3410002-08	4,082
Rural and Low Income-07	84.358B	3114002-07	20,773
Perkins, Title I Part C-07	84.048	4620632-07	1,390
Perkins, Title I Part C-08	84.048	4620632-08	11,416
Enhancing Education-07	84.318X	3210002-07	3,423
Title I-Sch Imp-07	84.010A	3100202-07	18,311
Title I-Sch Imp-08	84.010A	3100202-08	9,390
Improving Teacher Quality	84.367A	3230002-07	<u>70,084</u>
Total U.S. Department of Education			<u>\$ 844,758</u>
Total Federal Financial Assistance			<u>\$ 1,214,159</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2008**

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Caverna Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Food Distribution:

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2008**

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Caverna Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Food Distribution:

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.



**CAVERNA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008**

**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified?                               Yes          X   No
- Significant deficiencies identified  
that are not considered to be material  
weaknesses?                      X   Yes                   No

Noncompliance material to financial  
Statements noted?

           Yes          X   No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?                               Yes          X   No
- Significant deficiencies identified  
that are not considered to be material  
weaknesses?                      X   Yes                   No

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are  
required to be reported in accordance  
with section 510(a) of Circular A-133?

           Yes          X   No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I – Part A - Basic

84.027, 84.173

Special Education

Dollar threshold used to distinguish  
Between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

  X   Yes                   No

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008**

**II. FINANCIAL STATEMENTS FINDINGS**

Finding 2008-1: One individual is responsible for posting to the general ledger system, has check signing authority and performs bank reconciliations.

Recommendation: Segregation of duties is normally difficult to accomplish within a small organization, but management should be ever mindful of areas that can easily be improved upon. For example, we recommend that the individual who posts to the general ledger system and reconciles the bank statement should not sign checks in the normal course of business. Also, we recommend that management be the first to review the monthly bank statement before it is reconciled.

Response: Management has elected to assign other personnel the responsibility of signing checks in the normal course of business. Management will also assign other personnel the responsibility to review the bank statement before it is reconciled.

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Finding and response 2008-2: The District did not maintain sufficient historical records of Federal Cash Request Forms. These forms are necessary in tracking the expenditures for various federal programs and the corresponding amounts of cash requests.

Recommendation: We recommend that management maintain a sufficient record keeping system to include each month's request form, evidence of transmittal and general ledger reports as evidence to the amount of cash that has been requested and received for each program.

Response: The chief financial officer will maintain this file.

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2008**

There were no prior year audit findings.

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## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

WILLIAM E. MYERS, CPA  
R. BRENT BILLINGSLEY, CPA  
SAMMIE D. PARSLEY, CPA

Members of the Board of Education.  
Caverna Independent School District  
Horse Cave – Cave City, Kentucky 42127

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caverna Independent School District as of and for the year ended June 30, 2008, which collectively comprise the Caverna Independent School District's basic financial statements and have issued our report thereon dated November 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered Caverna Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Caverna Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Caverna Independent School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Caverna Independent School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Caverna Independent School District's financial statements that is more than inconsequential will not be prevented or detected by Caverna Independent School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item # 2008-1 as significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Caverna Independent School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Caverna Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Caverna Independent School District, in a separate letter dated November 6, 2008.

Caverna Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Caverna Independent School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Kentucky State Committee for School District Audits, the members of the Board of Education of Caverna Independent School District, the Kentucky Department of Education management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Campbell, Myers & Ratledge, PLLC*  
Certified Public Accountants

November 6, 2008

# CAMPBELL, MYERS & RUTLEDGE, PLLC

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## Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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Caverna Independent School District  
Horse Cave – Cave City, Kentucky 42127

### Compliance

We have audited the compliance of Caverna Independent School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Caverna Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Caverna Independent School District's management. Our responsibility is to express an opinion on Caverna Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and State Audit Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Caverna Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Caverna Independent School District's compliance with those requirements.

In our opinion, Caverna Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### Internal Control Over Compliance

The management of Caverna Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Caverna Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Caverna Independent School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item # 2008-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. In addition, the results of our test disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

Caverna Independent School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Caverna Independent School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Caverna Independent School District, the Kentucky Department of Education management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Campbell, Myers & Ratledge, PLLC*  
Certified Public Accountants

November 6, 2008

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Members of the Board of Education  
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Horse Cave-Cave City, Kentucky 42127

In planning and performing our audit of the financial statements of the Caverna Independent School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Caverna Independent School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

## Improper Segregation of Duties

- The general ledger bookkeeper opens the monthly bank statement, is responsible for reconciling the bank statement and is also an authorized signature on checks. Segregation of duties is normally difficult to accomplish within a small organization, but management should be ever mindful of areas that can easily be improved upon. For example, we recommend that the individual who posts to the general ledger system and reconciles the bank statement should not sign checks in the normal course of business. Also, we recommend that management be the first to review the monthly bank statement before it is reconciled.

## Insufficient Record Retention

- Client did not maintain sufficient historical records of Federal Cash Request Forms. These forms are necessary in tracking the expenditures to date for various federal programs and the corresponding amounts of cash requests for the periods. We recommend that management maintain a sufficient record keeping system to include each month's request form along with general ledger reports as evidence to the amount of cash that has been requested for each program.



During our audit we also became aware of other matters involving internal control, its operation, and operating efficiency that we have reported to the management of Caverna Independent School District in a separate memorandum that accompanies this letter.

This communication is intended solely for the information and use of management, and the Kentucky Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Campbell, Myers & Rathledge, PLLC*  
Certified Public Accountants

November 6, 2008

**CAVERNA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
June 30, 2008**

**Board**

Fixed Assets

Comment: The treasurer flags items for capitalization when they are entered into accounts payable in order that the Chief Financial Officer can enter them into the fixed asset system; however, there is no verification from the Chief Financial Officer to the treasurer that capitalization did occur. The Chief Financial Officer and other District personnel should better communicate with one another in order to ensure that the proper items were capitalized during the year.

Response: The Chief Financial Officer and other personnel within the district will better communicate to one another periodically to ensure the complete capitalization of appropriate assets.

**Caverna High School**

Activity Funds

Comment: An activity fund ended the fiscal year with a deficit balance. We recommend the activity fund treasurers are better educated about proper policy procedures regarding fund balance financial reporting according to the "Red Book."

Response: Management will educate all school activity fund treasurers.